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Bilski v. Kappos, 129 S.Ct. 2735 (2010)

In June of this past year, the U.S. Supreme Court issued its decision in Bilski v. Kappos addressing the Federal Circuit's test for determining whether method claims in a patent application are patentable. In 2008, the Federal Circuit Court of Appeals set forth a more stringent test - the "machine-or-transformation" test - as the standard for determining whether method claims are patentable. The machine-or-transformation test requires that a claimed method or process either (i) be tied to a particular machine or apparatus, or (ii) transform a particular article into a different state or thing. The Supreme Court held that while the machine-or-transformation test may be a useful tool when analyzing a claim, it should not be the sole criteria in determining whether a method or process claim is patentable.

As background, 35 U.S.C. Sec. 101 requires that, in order to be patentable, an invention must be new, useful and fall within at least one of four categories - processes and methods, machines, manufactures, and compositions of matter. In addition to these criteria, there are three judicially-recognized exclusions for subject matter that is an abstract idea, a physical phenomenon, or a law of nature. Prior to 1998, it was the general belief that methods of doing business were not patentable because they were considered to fall within the abstract ideas exclusion. However, the Federal Circuit's 1998 decision in State Street Bank & Trust Co. v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998), held that a business method can be patentable if it provides "a useful, concrete and tangible result." Following the State Street decision, the U.S. Patent and Trademark Office saw a significant increase in the number of patent applications that could be described as business methods. Some commentators have suggested that the Federal Circuit's machine-or-transformation test in Bilski was an effort to restrict business method patents in response to State Street.

The Bilski case involved a patent application for a method for hedging risk in commodities trading. The U.S. Patent and Trademark Office refused to grant Mr. Bilski a patent for his method and the Federal Circuit affirmed this decision concluding that the method was not tied to a particular machine and did not transform a particular article. The Supreme Court affirmed the decision to deny the patent application, but based its decision on the conclusion that the claims in the patent application sought to patent the basic concept of hedging by using a mathematical formula. The Court ruled that the hedging methods described in the patent application were simply abstract ideas and that its prior case law excluded such abstract ideas from patentable subject matter.

With respect to the Federal Circuit's machine-or-transformation test, the Supreme Court held that Section 101's criteria and the Court's own prior decisions do not mandate that the machine-or-transformation test be the only test for determining patentability. The Court also rejected the notion that there should be a per se rule prohibiting the patenting of business methods. Instead, the Court explained that the Patent Office and lower courts must look to Section 101 and the Court's prior decisions in resolving the challenging question of what subject matter is patentable. In essence, the Court rejected the Federal Circuit's attempt to create a clear, bright-line rule for assessing patentability and left the area open for further development and interpretation by the Patent Office and the lower courts. While the Bilski decision was directed generally to business methods, it also impacts the patentability of computer software technologies and medical diagnostic techniques which are often the subject of method claims in patent applications.

Pequinot v. Solo Cup Co., 07CV897 (Fed. Cir. 2010)

The Solo Cup decision from the Federal Circuit involves false marking of a product with patent numbers. Section 292 of the patent statute prohibits a person from deceiving the public by marking articles with patent numbers or patent application numbers that do not cover the product. False marking allegations have received significant attention over the past year since the Federal Circuit's decision in The Forest Group, Inc. v. Bon Tool Co., 590 F.3d 1295 (Fed. Cir. 2009). In the Forest Group decision, the Federal Circuit held that the statutory damages penalty of up to \$500 for falsely marking a product with an inapplicable, invalid or expired patent number applies to each and every article falsely marked. The Forest Group decision generally was viewed as opening the flood gates to potentially large damages awards where thousands of products may be falsely marked and, thus, creating a new cottage industry for plaintiffs to sue companies that mark their products with incorrect patent numbers. Section 292 permits any person to bring a false marking claim and provides that the plaintiff will share any recovered damages with the United States. Indeed, following the Forest Group decision, there has been a significant increase in the number of suits filed alleging false marking.

In order for liability to attach under Section 292, the person must falsely mark the article for the purpose of deceiving the public. The Solo Cup decision examined the intent necessary under the false marking statute. In this decision, the Federal Circuit held that knowingly marking a product with an expired patent number, although as false marking, does not rise to the required level of intent to deceive the public where the defendant relied in good faith on the advice of counsel. The defendant also did not remove the expired patent number because of the costs involved in modifying the molds for its plastic cups and this was viewed as a reasonable business justification for failing to remove the expired patent as opposed to an intent to deceive the public.

Proposed legislation is currently pending to restrict the parties that can bring a false marking claim and limit the potential damages available under such a claim.

Lucent v. Gateway, 580 F.3d 1301 (Fed. Cir. 2009)

Section 284 of the patent statute provides that upon a finding for the patentee, the patentee shall be awarded no less than a reasonable royalty. In Supreme Court precedent dating to the 1800s, the Court set forth the “entire market value rule” (“EMVR”) when calculating damages. The EMVR allows recovery of the entire value of the infringing product where “the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.” Garretson v. Clark, 111 U.S. 120 (1884).

The Federal Circuit recently revisited the EMVR in Lucent v. Gateway. The patents in suit concerned a minor feature in Microsoft’s software for providing a “date picker” function. The jury awarded a lump-sum royalty of \$358 million based on the entire market value of the Microsoft software.

The Federal Circuit reversed and remanded the damages award finding no evidentiary support that the Lucent patents were the basis or even the substantial basis of consumer demand for the Microsoft software. In other words, the patents related to a relatively minor feature of the overall software. The Federal Circuit reiterated that for the EMVR to apply, “the patentee must prove that the patent-related feature is the basis for the customer demand.” However, the Court clarified that even where the EMVR does not apply, the court can use the entire value of the product as the basis for a reasonably-apportioned royalty.

In re Bose, 580 F.3d 1240 (Fed. Cir. 2009)

On August 31, 2009, the Federal Circuit established a new standard for fraud prosecution. In reversing the Trademark Trial and Appeal Board’s (TTAB) decision in Bose Corp. v. Hexawave, Inc., 88 U.S.P.Q.2d 1332 (T.T.A.B. 2007), the Federal Circuit rejected the “should have known” standard for fraud and set forth a stricter standard that requires a party alleging fraud to point to clear and convincing evidence supporting an inference of deceptive fraud. The Federal Circuit concluded that the TTAB had “erroneously lowered the fraud standard to a simple negligence standard.” In re Bose Corp., 580 F.3d 1240, 1244 (Fed. Cir. 2009). The Federal Circuit’s decision in Bose is significant because trademark owners may now breathe a sigh of relief and no longer worry about possibly losing their trademark registrations due to inaccurate statements to the United States Patent & Trademark Office (“USPTO”).

Bose Corporation (“Bose”) filed an Opposition to the Hexawave, Inc. (“Hexawave”) application for the trademark HEXAWAVE. Bose alleged that Hexawave’s proposed mark was likely to cause confusion with Bose’s prior registered marks, including WAVE for a variety of goods, including “audio tape recorders and players.” In response, Hexawave counterclaimed for cancellation of Bose’s WAVE mark, alleging that Bose committed fraud in its registration renewal application wherein it claimed use on all goods in the registration, despite knowing that it had discontinued manufacturing and selling certain goods. Hexawave referenced Bose’s Section 8 affidavit of continued use and Section 9 renewal application. At the time Bose signed the Section 8 and 9 renewals, it continued to repair (and ship back) the previously sold tape recorders and players to its customers. Bose believed these activities constituted sufficient use for purposes of renewal. The TTAB disagreed, finding that such activities did not qualify as

sufficient use to maintain a trademark registration for said goods and that Bose's misstatement was not reasonable. Bose, 88 U.S.P.Q.2d at 1337.

Accordingly, the TTAB, relying largely on the "should have known standard" established in Medinol v. Neuro Vasx, Inc., 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003), ordered the cancellation of Bose's WAVE registration. In Medinol, the TTAB held that "[a] trademark applicant commits fraud in procuring a registration when it makes material representations of fact in its declaration which it knows or should know to be false or misleading." Medinol, 67 U.S.P.Q.2d at 1209. Thus, any material misstatements made to the United States Patent & Trademark Office ("USPTO") during the trademark or renewal process constituted fraud, regardless of intent, and therein rendered the registration subject to cancellation. Bose appealed to the Federal Circuit.

In reversing the TTAB's decision, the Federal Circuit asserted that "the very nature of the charge of fraud requires that it be proven "to the hilt." Bose, 580 F.3d at 1243. Further emphasizing this point, the Court noted that there is "no room for speculation, inference or surmise." Id. The proper rule requires that an applicant or registrant knowingly made a false material representation with the intent to deceive the USPTO in order to establish fraud in obtaining a trademark. The inquiry is not what the applicant should have known, but what the applicant actually knows. In this regard, when the Board equated the "should have known" falsity with a subjective intent, it erroneously lowered the fraud standard to a simple negligence standard. Id. at 1244. "Mere negligence is not sufficient to infer fraud and dishonesty." Id.

In reversing the TTAB's decision, the Federal Circuit equated the standard for fraud on the trademark office with the standard for inequitable conduct in the prosecution of a patent. See id. at 1245 (stating "[t]he principle that the standard for finding intent to deceive is stricter than the standard for negligence or gross negligence, even though announced in patent inequitable conduct cases, applies with equal force to trademark fraud cases."). Moreover, the Federal Circuit's decision removed one of the most effective weapons for opposition and cancellation proceeding defendants.

Rescuecom Corp. v. Google, Inc., 562 F.3d 123 (2d Cir. 2009)

On April 3, 2009, the Second Circuit Court of Appeal's opinion in Rescuecom Corp. v. Google, Inc. held that search-result-advertising practices may constitute "use in commerce" for purposes of trademark infringement. This decision vacated the United States District Court for the Northern District of New York's dismissal of a trademark infringement suit against Google, Inc. ("Google") by Rescuecom Corp. ("Rescuecom") on the grounds that it failed to state a valid claim for relief. In reaching this decision, the Second Circuit resolved a significant split between the Second Circuit and federal courts in the Third, Fourth, Fifth, Seventh, Eighth, Ninth, Tenth and Eleventh Circuits over the "use in commerce" issue. The practical effect of the Rescuecom decision is that trademark owners whose marks have been sold as part of keyword-triggered search engine advertisements may maintain actions under the Lanham Act in the Second Circuit.

Rescuecom filed an action against Google for trademark infringement, false designation of origin and dilution under Section 45 of the Lanham Act. Rescuecom alleged that Google

engaged in the coordinated practice of recommending and selling the keyword “Rescuecom” -- for which Rescuecom had a federally registered trademark -- to Rescuecom’s competitors so that when users typed “Rescuecom” into Google’s search box, the results included paid advertisements from competitors. Rescuecom specifically alleged that these advertisements diverted users from Rescuecom’s website, over which Rescuecom did a substantial amount of business. Google used two popular programs -- AdWords and Keyword Suggestion Tool -- to offer third parties context-based links that served as advertisements for products and services that were related to searches conducted by users.

The district court, relying largely on the 1-800 Contacts, Inc. v. WhenU.com, Inc., 414 F.3d 400 (2d Cir. 2005) holding, concluded that Google did not make the requisite “use” of Rescuecom’s mark for two reasons. First, Google did not place Rescuecom’s mark on any goods, containers, displays or advertisements, and second, Google’s sale of the trademark and the use thereof to trigger advertisements were internal uses. As such, the district court never addressed whether Google’s conduct created a likelihood of confusion.

On appeal, the Second Circuit distinguished and narrowly construed the facts of Rescuecom from those of 1-800 Contacts, stating that the 1-800 Contacts holding should be limited to cases involving keyword triggered “pop-up” advertisements that did not feature the trademark, but only the website address, and thus, did not serve as an absolute bar to Lanham Act claims based upon the use of keywords to trigger sponsored links. Unlike the software program at issue in 1-800 Contacts, Google’s AdWords and Keyword Suggestion Tool Programs allowed advertisers to select words related to their business and purchase those words from Google. Once purchased, when a Google user selected that word in a search, the advertiser’s sponsored advertisement and link would appear with the Google search results. Moreover, Google manipulated which advertisements displayed by linking Rescuecom’s trademark to the purchaser’s advertisement, which ensured that the purchaser’s advertisement displayed every time a “searcher” typed Rescuecom’s mark into the search field. Id. at 126.

Further, unlike the defendant in 1-800 Contacts, the Second Circuit noted that Google was: (1) recommending and selling Rescuecom’s trademark; (2) displaying, offering and selling Rescuecom’s trademark to customers when creating ads; and, (3) encouraging clients to buy the trademark in its Keyword Suggestion Tool. The court held that those were not internal uses. Id. at 129. The Second Circuit also acknowledged that the mere use of a trademark in internal software does not grant immunity to a potential infringer, for such a rule would allow search engines to use trademarks that are likely to deceive consumers and cause confusion. Id. at 130.

While the Second Circuit took no position on whether Rescuecom could prove that Google’s use of the RESCUECOM trademark in its software programs caused a likelihood of confusion or mistake, it held that the district court erred in dismissing Rescuecom’s complaint based on the 1-800 Contacts case and remanded the case back to the district court for further proceeds. In March 2010, the parties settled their six-year dispute, the terms of which were not contained in the dismissal itself.

Zino Davidoff SA v. CVS Corp., 91 U.S.P.Q.2d 1038 (2d Cir. 2009)

On June 30, 2009, the Second Circuit's opinion in Zino Davidoff SA v. CVS Corp., 571 F.3d 238 (2d Cir. 2009) held that interference with a trademark owner's legitimate efforts to control quality may unreasonably subject the trademark owner to the risk of injury to the reputation of its mark, and in doing so, may constitute trademark infringement. The Second Circuit affirmed a preliminary injunction issued by the United States District Court for the Southern District of New York in Zino Davidoff SA v. CVS Corp., 2007 WL 1933932 (S.D.N.Y. July 2, 2007) that barred CVS Corp. ("CVS") from removing unique protection codes ("UPC") from Zino Davidoff SA's ("Davidoff") product packaging for its "Cool Water" fragrance products on the grounds of trademark infringement. The practical effect of the Second Circuit's decision in this case is that it will provide trademark owners with additional safeguards, namely UPC codes, to successfully combat gray market competition and enforce their valuable trademark rights.

Davidoff, the owner of the COOL WATER trademark, marketed and sold a line of cologne and fragrances under the aforementioned mark. Davidoff licensed its Cool Water product to Coty, Inc. ("Coty") and its subsidiaries for the manufacture and distribution thereof. Davidoff and Coty together developed a quality control assurance and anti-counterfeiting program. Part of this program involved the placement of a UPC on each Cool Water product and on the bottom of its corresponding package. The UPC contained basic information about each product unit, including "where and when it was produced and ingredients used." Zino Davidoff, 571 F.3d at 245. In addition to enabling Davidoff to track fake goods sold to and by unlicensed distributors, the UPC allowed Davidoff to easily detect defects and recall or remove products with such defects. Id. at 240-41.

To maintain the prestige of the Davidoff Brand, Davidoff restricted distribution of its Cool Water products to luxury retailers and declined to sell to CVS. Davidoff, however, learned that CVS had been selling counterfeit Cool Water products. Moreover, CVS was selling Davidoff's Cool Water cologne and perfume without the UPC codes. Davidoff immediately dispatched cease and desist letters to CVS on two occasions, first in 1996 and then again in 2005. Despite assuring that it would conduct an inventory and remove all counterfeit Cool Water products, Davidoff discovered in 2006 that CVS had continued to sell counterfeit Cool Water fragrances. Shortly thereafter, Davidoff brought an action against CVS for trademark infringement, trademark dilution and unfair competition under the Lanham Act.

By way of a court-ordered investigation, Davidoff was able to determine that CVS was selling both counterfeit goods and gray market goods. Indeed, the gray market goods had their UPCs removed in a variety of ways, including cutting away the UPC from the packaging, using chemicals to wipe away the UPC on the label, and grinding away the UPC from the bottom of the fragrance bottle. In March 2007, CVS voluntarily agreed to cease selling the counterfeit products, but argued that, since there was no question as to the genuineness of the goods with the UPC removed, *i.e.* the gray market goods, it should be allowed to sell its inventory. Davidoff then sought a preliminary injunction forbidding CVS from selling these goods. The district court granted Davidoff's motion and CVS appealed.

On appeal, CVS argued that the gray market goods were genuine Davidoff products sold in their original packaging, and therefore there was no infringement since the removal of the UPCs did not negate the genuineness of the products nor the COOL WATER mark associated therewith. The Second Circuit, however, disagreed. Despite acknowledging that the Lanham Act did not impose liability on the sale of genuine products bearing a trademark because such a sale would not cause confusion, the Second Circuit, relying on the test outlined in Warner-Lambert Co. v. Northside Dev. Corp., 86 F.3d 3 (2d Cir. 1996) found that goods were not genuine if they did not conform to the trademark owner's quality control standards. Citing Warner-Lambert, the Second Circuit explained that "[a] trademark holder is entitled to an injunction against one who would subvert its quality control measures upon a showing that (i) the asserted quality control procedures are established, legitimate, substantial and nonpretextual; (ii) it abides by these procedures, and (iii) sales of products that fail to conform to these procedures will diminish the value of the mark." Davidoff, 571 F.3d at 244. In addition to recognizing Davidoff's right to control the quality of its products, the Second Circuit also found that CVS's removal of the UPCs materially altered the products sold under the COOL WATER mark. See id. at 246 (citing Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68, 73 (2d Cir. 1987)). The Second Circuit explained that when determining what constitutes a "material" difference between gray market goods and genuine trademarked product, it requires "no more than a slight difference which consumers would likely deem relevant when considering a purchase of the product." Id. Thus

Accordingly, CVS's removal of Davidoff's UPC codes from its Cool Water products interfered with Davidoff's trademark rights, and thus, constituted trademark infringement. While trademark owners may view the Davidoff decision as providing them with UPCs as another means to protect and enforce their rights, trademark owners must also be sure to actually utilize UPCs to monitor the quality of their products. Failure to do so may discourage the reviewing court from entertaining a quality control program that is neither established nor enforced.

In re Vertex Group LLC, 89 U.S.P.Q.2d 1694 (T.T.A.B. 2009)

On February 13, 2009, the Trademark Trial & Appeal Board ("TTAB") created and then applied a standard for determining whether a sound is sufficiently distinctive to qualify for registration on the Principal Registrar under the Lanham Act. In Vertex Group LLC, 89 U.S.P.Q.2d 1694 (T.T.A.B. 2009), the TTAB held that a sound mark for a good that makes the sound in its normal course of operation cannot be inherently distinctive and may be registered only upon proof of acquired distinctiveness. This decision will likely significantly impact trademark owners' ability to register and enforce "commonplace" sound mark in the future.

Sound marks have been registered in the United States since as early as 1950, when NBC registered "the music notes G, E, C, played on chimes" for "broadcasting of radio programs" (U.S. Reg. No. 523,616). Almost 30 years later, the TTAB acknowledged that sounds may function as source indicators when they assume "a definite shape or arrangement and are used in such a manner as to create in the hearer's mind an association of the sound with a [good or] service." In re General Electric Broadcasting Co., Inc. 199 U.S.P.Q. 560, 563 (T.T.A.B. 1978). The TTAB, however, distinguished "unique" sounds from "commonplace" sounds, the latter of

which may only be registered upon being shown to have acquired distinctiveness. *Id.* Subsequent to this holding, the Supreme Court extended its prior decisions in Qualitex Co. v. Jacobsen Prod., Inc., 514 U.S. 159 (1995) and Wal-Mart Stores, Inc. v. Samara Brothers, 529 U.S. 205 (2000) to sound marks. In these cases, the Supreme Court held that both color and trade dress can never be inherently distinctive and can only be registered upon a showing of secondary meaning. The Vertex Board extended this rule regarding color and product design to certain types of sound marks. *See Vertex*, 89 U.S.P.Q.2d at 1700.

Vertex Group LLC (“Vertex”) filed two intent-to-use applications to register a sound mark as a trademark for two kinds of “personal security alarms.” Vertex’s mark was comprised of “a descending frequency sound pulse (from 2.3kHz to approximately 1.5kHz) that follows an exponential, RC charging curve, wherein said descending frequency sound pulse occurs four to five times per second, and that over a one second period of time, there is alternating sound pulses and silence with each occurring approximately 50% of the time during a one second period of time.” *Id.* at 1696. The sound was made by the AmberWatch, a device designed to protect children from potential abductors. When pressed, the watch emitted a 115-decibel alert signal four times louder than a screaming child that can be heard “from over a football field away.” *Id.* Vertex did not seek to register its sound mark based on “acquired distinctiveness.” Rather, Vertex asserted that its mark was “inherently distinctive” and non-functional.

Upon review of the case law discussed above, the TTAB ruled that “[w]hen a sound is proposed for registration as a mark on the Principal Register, for goods that make the sound in their normal course of operation, registration is available only on a showing of acquired distinctiveness under Section 2(f).” *Id.* at 1700. Because Vertex did not seek registration under Section 2(f), and since its personal security alarm sound mark could only be registered upon a finding of acquired distinctiveness, the TTAB held that the USPTO’s refusal to register the mark was appropriate. The TTAB, however, reviewed the USPTO’s refusal and affirmed the USPTO’s refusal on the grounds of functionality and failure to function as a trademark.

Based on the evidence submitted by Vertex, the TTAB concluded that the sound emitted by the AmberWatch did not promote recognition of the sound as a source indicator nor did it educate the consuming public as to the “assertedly distinctive aspects of the sound.” *Id.* at 1702. Thus, the sound mark failed to identify and distinguish the source of the sound from similar sounds of others. With respect to functionality, the TTAB applied the tests set out by the Supreme Court and the Federal Circuit in Qualitex and In re Morton-Norwich Products, Inc., 671 F.2d 1332 (C.C.P.A. 1982), respectively. Applying the Qualitex test, the TTAB concluded that the sound feature of the AmberWatch was “essential to the use or purpose of [Vertex’s] products,” and therefore, functional. *Id.* at 1703. The evidence showed that the use of a loud alarm is important, and that alternating sound pulses and silence provides a “more effective way to use sound as an alarm than is a steady sound.” *Id.* Under the four factors outlined by the Federal Circuit in Morton-Norwich, the Board concluded that the sound of the AmberWatch was functionable and unregistrable.

The TTAB correctly determined that the sound mark proposed by Vertex lacked inherent distinctiveness, and there was no evidence of secondary meaning. On these grounds alone, the refusal of Vertex’s registration for its sound mark should have been affirmed. While the TTAB’s

decision will have little impact on traditional sound marks, such as musical notes, it will be more difficult for applicants to register commonplace sounds in the future.

Viacom Int'l Inc. v. YouTube Inc., 07cv2103 (June 23, 2010 S.D.N.Y.)

In 2007, Viacom brought suit against YouTube for contributory copyright infringement. The central issue in the case is whether copyright owners or Internet service providers should bear responsibility for policing material that infringes a party's copyright. On June 23, 2010, Judge Stanton of the Southern District of New York granted YouTube's motion for summary judgment with respect to contributory copyright infringement.

Viacom alleged that YouTube was contributorily liable for the extensive copyright infringement by users of the YouTube website. Viacom asserted that YouTube encouraged the infringing conduct and was therefore liable under the copyright statutes. Viacom also alleged that YouTube was not insulated by the Digital Millennium Copyright Act's ("DMCA") safe harbor provisions.

The DMCA protects online service providers from liability for copyright infringement when the service provider:

(A) (i) does not have actual knowledge that the material or an activity using the material on the system is infringing;

(ii) in the absence of such knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement, responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

17 U.S.C. § 512(c)(1).

Judge Stanton's ruling focused on the extent of the online service provider's knowledge required to preclude the safe harbor's protections. In his order, Judge Stanton reasoned that a service provider is entitled to the safe harbor provisions of the DMCA, unless the service provider had actual knowledge of a specific infringement, and then failed to act promptly to remove the infringing content. Although infringing activity is prevalent on YouTube, the court concluded there was insufficient evidence that YouTube had knowledge of specific, identifiable infringements. Instead, its knowledge was only generalized. The court's ruling emphasized the

policy and legislative history supporting the DCMA in that, by limiting liability for service providers, the DMCA allows resources available on the Internet to expand and improve.

The court's ruling cites several cases from the Ninth Circuit that require a substantial degree of knowledge of infringing activity before the provider loses the safe harbor protections. These cases supported the court's reasoning that general knowledge of infringing conduct is insufficient to trigger a duty to monitor or remove infringing material. If, however, the service provider receives formal notice of infringement from a copyright owner, the provider must remove the material promptly.

In support of its position, Viacom cited the Supreme Court's Grokster decision. The Grokster ruling held that a party who distributes a device with goal promoting its use for infringement, is contributorily liable for copyright infringement. However, Judge Stanton distinguished Grokster as a service whose only true purpose was to infringe copyrights. In contrast, he found that YouTube has numerous valid purposes and uses.

With respect to Viacom's argument that YouTube receives a financial benefit from the infringing activity, the court reasoned that this factor must be read in combination with the service provider's ability to control the activity. Citing again YouTube's lack of specific knowledge of infringing activity, the court found that YouTube was not receiving a financial benefit directly tied to infringing activity for which it had specific knowledge.

The district court's decision is currently on appeal to the Second Circuit Court of Appeals.

Omega, S.A. v. Costco Wholesale Corp., 08-1423 (Supreme Court 2010)

This case was argued before the U.S. Supreme Court on November 8, 2010 and involves the importation of gray market wrist watches made in Switzerland. Omega asserted a copyright interest over its logo on the face of the watches. The focus of the suit is the interpretation of the first sale doctrine under the Copyright Act, specifically, whether the use of the term "lawfully made under this title" in 17 U.S.C. § 109(a) includes goods made outside the U.S.

Costco purchased the watches from authorized distributors overseas and imported them into the U.S. Omega asserted that the Copyright Act permits them to block importation of the wristwatches because they were imported without Omega's authorization. The Ninth Circuit Court of Appeals ruled against Costco holding that the first sale doctrine does not apply to foreign-made goods.

At the Supreme Court arguments, Costco argued that the Ninth Circuit's ruling would encourage copyright owners to outsource the manufacture of their goods overseas and that Congress had no such intent. In contrast, Omega argues that its foreign manufactured watches are not subject to the first sale doctrine set forth in Section 109. It was unclear based on the oral arguments, which party the Court was more inclined to agree with.